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10-5

# **The Impact of U.S. Subsidies on West African Cotton Production**

By:

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## Executive Summary

Cotton subsidies and their impact on international prices and on the livelihoods of poor African cotton farmers have become a central focus of the Doha Development Round of World Trade Organization (WTO) negotiations. Cotton subsidies have taken a high profile in part because cotton is a critical crop for some of the world's poorest countries, including the "Cotton 4" countries of Benin, Burkina Faso, Chad, and Mali. Another reason for this attention is that middle-income countries such as Brazil and China have a great deal at stake in cotton trade and much to gain through the elimination and reform of U.S. cotton subsidies.

Because of the prominent role cotton plays in the economies of "Cotton 4" countries, a small decline in cotton prices can make an enormous difference in the ability of their farmers to pay for health care, education, and food. A good price for cotton allows farmers to boost production of subsistence crops, slows urbanization by keeping people in rural areas, and creates localized wealth in rural places that need it most.

Opponents of the U.S. cotton subsidy program argue that it is trade distorting, because it results in at least a 10 percent reduction in global cotton prices. They also assert that it is a burden on U.S. taxpayers to keep afloat an inefficient industry that would not be profitable without subsidies. Advocates of the program argue that larger factors are at play in the world cotton price and that the impact of U.S. subsidies is negligible.

Cotton producers in the United States, West Africa, and middle-income cotton countries have a great deal at stake in the debate over subsidies. The WTO is also a major stakeholder, because some observers see cotton as a litmus test of whether or not the WTO is capable of serving the interests of less powerful countries and poor people. Important questions for all parties include who the real winners will be if subsidies are reformed or eliminated, what the alternatives are for cotton producers who cannot compete in the global market, and what kind of leverage the world's poorest producers might have in future trade negotiations.

Your assignment is to prepare cotton subsidy recommendations for the next U.S. farm bill that would be acceptable to all stakeholder groups.

Discuss policy issues regarding support for and resistance to the recommendations, justify these recommendations, and assess the consequences for stakeholder groups.

## Background

The Doha Round of trade negotiations, which aimed to redress the inequities of the Uruguay Round, called itself a development round and sought to place agriculture at the heart of the agenda. The negotiations collapsed in 2006 owing to intransigence on the part of the European Union (EU) and the United States regarding subsidies and tariffs. Even though cotton subsidies account for just 1 percent of agricultural subsidies in countries of the Organization for Economic Cooperation and Development (OECD), cotton is the commodity most often credited for unraveling negotiations, and its subsidies have served as a poster child for unfair trade practices worldwide (Heinisch 2006; Williams 2003). The inequities of trade policy in the cotton sector are most vividly illustrated in the plight of West African producers. In the "Cotton 4" countries of Benin, Burkina Faso, Chad, and Mali, gains from aid are overshadowed by losses in cotton trade due to current trade policies. The shares of people living on less than US\$1 a day in Benin, Burkina Faso, and Mali are 41 percent, 27 percent, and 72 percent, respectively (World Bank 2006). The figure for Chad is not available, but this country ranked 173<sup>rd</sup> out of 177 countries on the 2003 United Nations Human Development Index (UNDP 2005). Given that these are four of the poorest countries in the world, their ability to compete in a global market with a commodity for which they have a significant comparative advantage is crucial for their development.

Francophone Africa's position in world cotton production, consumption, and trade—along with that of other regions around the world—is charted in Figures 1 through 3.<sup>1</sup> Figures 1 and 2 present worldwide production and consumption patterns. Francophone Africa is the world's seventh-largest

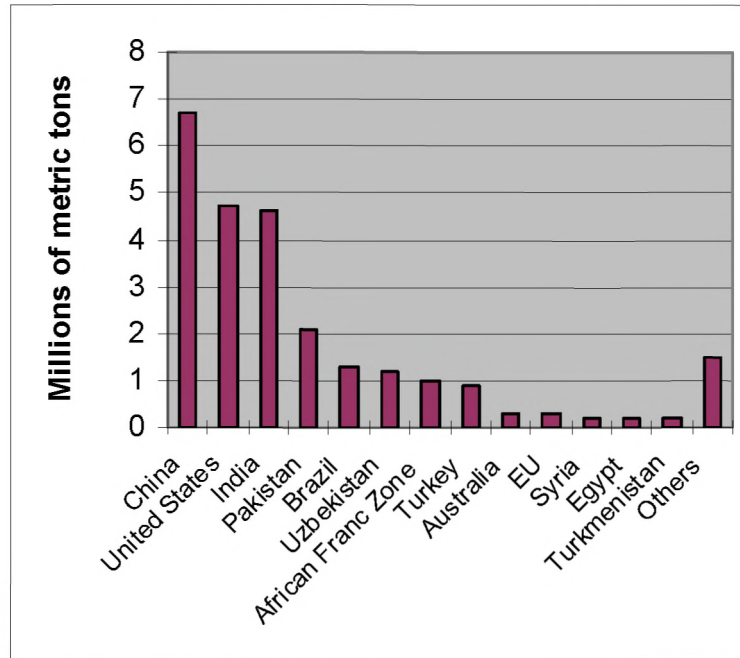
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<sup>1</sup> Although these figures include African countries outside of the "Cotton 4," the majority of African cotton exports come from these four countries.

producer of cotton, producing 4 percent of the world's total supply. The top five cotton-producing countries, along with their share of overall world production, are China (26 percent), the United States (19 percent), India (18 percent), Pakistan (8

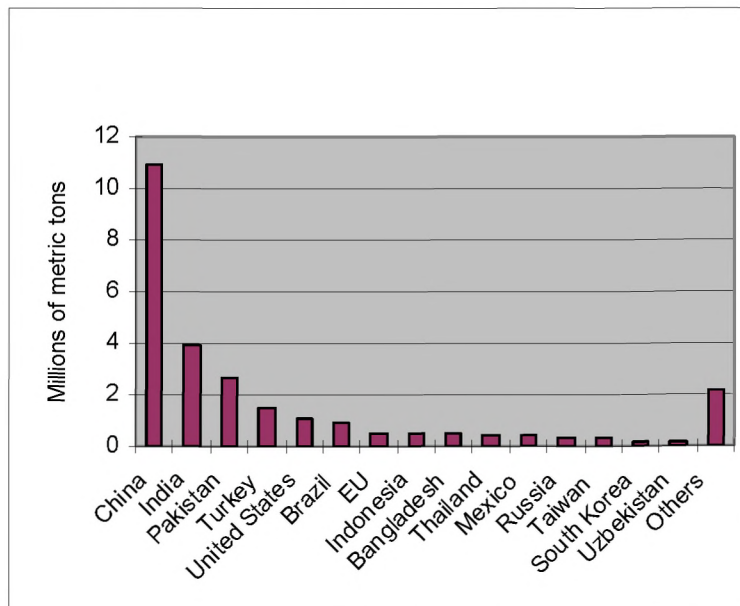
percent), and Brazil (5 percent). The five largest consumers of cotton, along with their share of overall world consumption, are China (41 percent), India (15 percent), Pakistan (10 percent), Turkey (5 percent), and the United States (4 percent).

*Figure 1: World Cotton Production, 2007*



Source: Cotton Incorporated 2007.

*Figure 2: World Cotton Consumption, 2007*



Source: Cotton Incorporated 2007.

Figure 3 illustrates Francophone Africa's role in cotton trade compared with that of other cotton-exporting regions around the world. Francophone Africa produces approximately 10 percent of all cotton traded internationally, 22 percent of which is exported to the EU and 56 percent of which is exported to Asia. The United States produces about 40 percent of all exported cotton, providing 11 percent of its total exports to Turkey, 17 percent to Mexico, and 48 percent to Asia. Uzbekistan is also a major player in cotton markets. Like Francophone Africa, this country produces about 10 percent of the world's exported cotton, exporting 20 percent of its cotton to Europe and 37 percent to Asia. Australia and India each account for just over 2 percent of cotton exports, with the former sending 95 percent of its exports to Asia and 5 percent to Europe.

### The Importance of Cotton in the West African Economy

For many years, cotton was considered the "white gold" of several West and Central African countries. The region's comparative advantage in the commodity is in large part what makes its farmers the most cost-efficient cotton producers in the world. Production costs for a farmer in Benin are estimated to be around US\$0.30 per pound, whereas the cost for the average U.S. farmer is around US\$0.68 per pound (ICAC 2001). Not only is labor cheaper in West Africa, but cotton produced there is also higher in quality because it is hand-picked and therefore "cleaner" than that picked mechanically.<sup>2</sup> Cotton in this region is also entirely rain fed, whereas 55 percent of cotton area in the rest of the world is irrigated (Estur 2005b). Because conditions in this part of the world are so amenable to cotton production, more than 10 million people now depend on the commodity for their livelihoods in West and Central Africa. Ninety-seven percent of West African cotton is exported, and the crop accounts for around one-third of total exports for both Benin and Burkina

Faso (Estur 2005a). In Benin, approximately half of all households rely on cotton for a portion of their income. In Benin, Burkina Faso, Chad, Mali, and Togo, cotton is responsible for between 2 and 5 percent of gross domestic product (GDP) (Oxfam 2005). In comparison, the entire agriculture industry in the United States accounts for 2 percent of GDP, with cotton contributing 0.0004 percent of U.S. GDP (World Bank, cited in Oxfam 2005).

Because of the prominent role that cotton plays in many West and Central African countries, a small decline in cotton prices can make an enormous difference in the ability of these countries' farmers to pay for health care, education, and food. A good price for cotton allows farmers to boost production of subsistence crops. It also keeps rural people from fleeing to urban centers to find employment, and by creating localized wealth, it encourages development of locally based initiatives and activities (Caritas-CIDSE 2004). As might be expected, low prices have the opposite effect on rural cotton farmers. A study by the International Food Policy Research Institute (IFPRI) for the World Bank found that a 40 percent reduction in farm-level cotton prices leads to a 21 percent reduction in income and a 20 percent rise in poverty for cotton farmers (Minot and Daniels 2002).

### U.S. Cotton Production and Subsidy Program

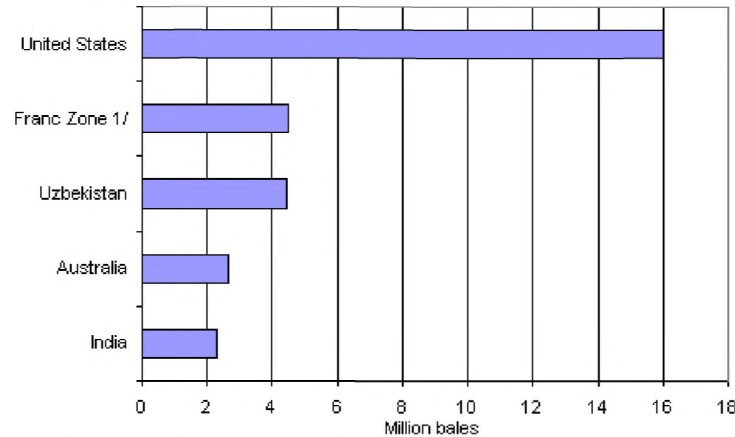
The history of cotton production in the United States parallels that of other farm sectors, with a marked trend toward concentration of production occurring in the latter half of the 20<sup>th</sup> century. In 1930 nearly one-third of the 6.3 million farms in the United States produced cotton. In that year 13 million bales of cotton were produced on 42 million acres. Seventy-five years later there were fewer than 25,000 cotton farms in the United States, and the crop reached a record of 23 million bales grown on 13.7 million acres (Estur 2005a). The high levels of cotton production in the United States have coincided with a downturn in domestic demand. As a result, cotton exports increased to 76 percent of production in 2003, which amounted to a 41 percent share of world exports.

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<sup>2</sup> Although the quality of the fiber is superior to that of U.S. cotton, contamination during picking and storage "annihilates" this comparative advantage to the extent that the price of hand-picked cotton is discounted relative to machine-picked cotton. Some mills even refuse to buy manually harvested cotton to avoid complaints about low quality (Estur 2005a).



*Figure 3: Leading Cotton Exporters, 2004–2006  
[accounting for three-quarters of world trade]*



1/ USDA reports cotton data for 10 of the 14 Franc Zone countries: Benin, Burkina Faso, Cameroon, Chad, Central African Republic, Cote d'Ivoire, Mali, Senegal, Togo, and Niger.  
Source: USDA 2006.

This kind of production would not be possible without government assistance (see Box 1). Between 1998 and 2002, the United States spent US\$14.8 billion to subsidize cotton valued at US\$21.6 billion, and the U.S. Department of Agriculture estimates that without subsidies, the average U.S. cotton farmer would have lost US\$871 for each acre of cotton planted from 1998 to 2004 (Oxfam 2004). Current subsidy levels were legislated in the 2002 Farm Bill, which guaranteed a minimum price of US\$0.71 per pound to U.S. cotton producers. When the 2002 Farm Bill was passed, average world prices were around US\$0.40 a pound, although prices have since risen to about US\$0.57 per pound. The total amount of cotton subsidies distributed to producers in the crop year 2004/2005 was US\$4.2 billion, which was also the estimated total value of the crop that year (Oxfam 2005).

Not all U.S. farmers are eligible for subsidies, and in fact most are not. According to the U.S. Department of Agriculture (USDA), 60 percent of all farmers and ranchers do not collect government subsidy payments, primarily because the crops and livestock they produce do not qualify for subsidy

programs.<sup>3</sup> Among farmers who qualified for subsidies in 2004, 10 percent of the largest producers received 73 percent of all subsidies. Recipients in that category received an average of US\$86,388 in annual payments, while the bottom 80 percent of recipients received only US\$1,601 on average per year. The 22 top producers received more than US\$1 million in subsidies (Environmental Working Group 2006). The disparities in subsidies reveal that the U.S. program not only disadvantages poor, small-scale farmers in developing countries, but also puts at risk the livelihoods of those kinds of farmers in the United States.

The most controversial subsidy program in the cotton sector is the “Step 2” cotton program, which cost taxpayers US\$264 million in 2004. This program funnels tax money to U.S.-based cotton millers and exporters so they can buy domestically grown cotton instead of cheaper foreign cotton. These subsidies then allow this cotton to be exported (or “dumped”) at prices that can be lower than the cost of production. The top 10 recipients of Step 2 subsidies in 2004 received 61 percent of the total paid out that year, with payments ranging

<sup>3</sup> For a list of the top subsidy recipients in the United States, visit <http://www.ewg.org/farm/region.php?fips=00000>.

from US\$9 million to more than US\$34 million for the largest cotton merchant, Allenburg Cotton Company of Cordova, Tennessee (Cook and Campbell 2005). The WTO ruled these Step 2 payments illegal in a case Brazil brought against the United States in 2004, and the United States has eliminated them, arguing that it is now in

compliance with the panel ruling. Brazil is asking for further U.S. subsidy reform and has asked for a WTO compliance panel. (For more information on the case, see the case study “The WTO Dispute Settlement Mechanism: The Brazil–U.S. Cotton Case, by Fuzhi Cheng, in this series.)

### ***Box 1: The U.S. Cotton Subsidy Program***

U.S. government subsidies to cotton producers come in a variety of forms and have a wide range of purposes, including minimizing environmental impacts, providing disaster assistance, controlling pests, offering credit assistance, and subsidizing irrigation that provides water to Western states. The following list (adapted from Cross 2006) is not exhaustive, but it includes the kinds of subsidies most often referred to in debates over the U.S. subsidy program.

**Marketing loan payments** – Farmers use their crops as collateral for a loan from the U.S. Department of Agriculture’s Commodity Credit Corporation (CCC). When the world price for cotton falls below the given loan rate, the borrower can repay the loan at the lower price and retain the difference.

**Direct payments** – These payments are generally tied to fixed, historical production levels and are an example of decoupled income support, meaning that they are not related to market price fluctuations or levels of production. They are therefore sometimes considered less trade distorting than other types of payments.

**Countercyclical payments and emergency assistance** – Countercyclical payments, based on historical production levels, are designed to protect farmers against a decline in prices and are triggered when the market price for cotton falls below a target price. They are decoupled from payments to offset low commodity prices.

**Crop insurance** – Insurance is provided through private insurers at a subsidized rate to protect farmers against losses caused by natural disasters. The USDA’s Risk Management Agency pays more than 50 percent of the premiums and makes additional payments to the insurers for administrative costs. Any losses over the premiums are also paid by the government.

**Export credit guarantees** – A minimum of US\$5.5 billion is made available by the CCC to provide government guarantees on the repayment of private loans to finance exporter sales of cotton and other commodities. These guarantees are intended to encourage exports of agricultural products to foreign countries where financing might not be available.

**“Step 2” payments** – These payments encourage buyers (like yarn and textile manufacturers and cotton exporters) to purchase U.S. cotton by providing a subsidy to do so when the lowest price for the cotton exceeds a benchmark price for Northern European cotton over a consecutive four-week period.

### The End of the Multi-Fiber Arrangement

Cotton is one of the world's most important textile fibers, accounting for more than half of all the fibers used in clothing and household furnishings (ICAC 2004). West African countries—indeed the African continent as a whole—have been unable to play more than a marginal role in the market for value-added goods despite their share in the world cotton market. Although the cotton-producing countries in West Africa account for just 4 percent of world cotton production, roughly 90 percent of their crop is exported as raw fiber, thus making them a more significant player in global cotton trade (Adams 2006). The textile industry in Africa suffers owing to a number of factors, including a lack of qualified personnel and capital to finance investment, costly energy and transport, landlocked cotton-producing countries, a weak internal market, and competition from imports, particularly of second-hand clothing. The world textile market is also subject to a great deal of distortion, particularly in the world yarn market. All of these factors highlight the persistent importance of raw cotton exports for West African farmers (Estur 2005b).

Much of the market distortion in the world textile trade was due to the Multi-Fiber Arrangement (MFA), which later became the Agreement on Textiles and Clothing and was phased out between 1995 and 2005. This agreement effectively excluded Sub-Saharan African countries from the textile market, which comprises yarn and fabrics.<sup>4</sup> The degree to which the end of the agreement will help Sub-Saharan Africa, however, is seriously under question. Developing countries had believed that the phasing out of the MFA by January 1, 2005, would provide them with the opportunity to industrialize through textiles and apparel. These markets have been captured, however, by a few of the strongest developing countries, and most developing countries have been left on the sidelines.

Particularly in China, the demise of the MFA led to a massive increase in clothing exports to the EU and United States, both of whom reacted by imposing new import quotas. These new quotas

were possible through a special provision, made when China joined the WTO in 2001, that allows countries to impose limits on textile imports until the end of 2008 if doing so will prevent market-disrupting surges. Accordingly, in June 2005 the EU signed an agreement to restrict the growth level of 10 categories of textile and clothing imports to between 8 and 12.5 percent annually until the end of 2007. In November 2005 the United States and China agreed to place quotas on 34 categories of Chinese textile and clothing imports beginning January 1, 2006. The quotas increase annually: 8–10 percent of U.S. textile imports can come from China in 2006, 10–16 percent in 2007, and 15–17 percent in 2008 (Hufbauer et al. 2006).

### **Policy Issues**

#### Factors Affecting the World Market Price of Cotton

In its case against the United States at the WTO, Brazil asserted that world cotton prices would be 12.6 percent higher if certain U.S. farm programs were removed. The Food and Agriculture Organization of the United Nations (FAO) and the International Monetary Fund (IMF) both estimate the potential increase to be around 2 percent (USTR 2004). With the exceptions of 2003 and 2004, stocks over the past 10 years have remained relatively steady at more than 10 million tons. Over this same period the Cotlook Index has been declining and in 2006 was US\$0.56 cents per pound (Cotlook 2006).<sup>5</sup>

Despite their demonstrated effects on cotton prices, subsidies are not the only external force at play concerning this issue. Additional factors having an adverse affect on global cotton prices include exchange rates, competition from less expensive synthetic fibers, China's decreasing consumption of and demand for cotton imports, the entrance of new producers in Brazil, Turkey, and

<sup>4</sup> For more information on the Multi-Fiber Arrangement, see the case study "The Termination of the International Agreement on Textiles and Clothing," by Jill S. Shemin, in this series.

<sup>5</sup> The Cotlook A Index is the average of the cheapest five quotations from a selection of the main internationally traded upland cottons. Using this average is a means of identifying the growths that are the most competitive and therefore the likeliest to be traded in the most volume. This practice is a proxy for weighting, because the absence of timely data by which weighting could be calculated makes it impractical (Cotlook 2006).

Central Asia, and decreasing demand for commodities following the Asian economic crisis of 1997 (USTR 2004).

### Non-U.S. Cotton Subsidies

The United States is not the only country whose cotton subsidies have deleterious effects on the viability of West African cotton farmers. Although the EU is not as large a player in the global cotton market, more than 100,000 cotton farmers in Greece, Portugal, and Spain receive nearly US\$1 billion in subsidies every year. Because the EU is Africa's largest trading partner, its subsidies are particularly harmful for Sub-Saharan African farmers, who are cut off from the self-sufficient European cotton market. Although the EU does not export cotton, its production still results in downward pressure on prices by contributing to increasing global supply. Cotton farming in the EU occurs in lower-income regions, and those regions often offer few economically attractive alternatives to cotton production. The EU thus sees its cotton income and support program as a justified mechanism to help small, low-income producers who have an average farm size of just over 12 acres and a limited impact on the world cotton market. The EU has undertaken a reform of its cotton subsidies, although the legality of this reform was challenged in a recent European Court of Justice opinion.

As the world's largest producer and importer of cotton, China's role in cotton trade is monumental and growing. Despite the country's high levels of production, China's growing textile sector requires more cotton than the country produces. Although China's consumption of cotton has been increasing steadily since 1970, production has been volatile. In 2003 stocks were exhausted entirely when consumption surpassed production by almost 2 million tons.

### The Political Economy of Trade

In July 2006 the Doha Round of WTO collapsed after five years of negotiations. This round was intended to make globalization more inclusive of the world's poorest countries by reducing subsidies, tariffs, quotas, and other barriers to trade erected by more developed countries. The EU and the United States could not agree on the specifics of those reductions: the United States argued that

the EU was not doing enough about tariffs, and the EU asserted that the United States was not serious about reducing its subsidies. Genuine differences about whether the interests of the poor are best served by lower tariffs or more special protection contributed to the impasse. A larger factor at play, however, was the powerful influence of lobbies.

Farmers and rural sectors enjoy a great deal of cultural and political support in nearly all countries. With large-scale producers entering the picture over the past few decades, popular support has been reinforced by powerful political lobbies from industry and agribusiness. Nonetheless, direct payments to farmers that are tied to production, along with high retail prices supported by trade barriers, are losing legitimacy and credibility in the public sphere. Even though negotiations to reduce government measures in agriculture involve complex trade-offs, pressure is increasing to level the playing field as subsidies continue to garner international attention.

The end of the Doha Round may lead to growth in bilateral trade negotiations, which work to the disadvantage of poorer and less powerful countries. In bilateral negotiations they are no longer able to work collectively and increase their leverage in negotiations with countries such as the United States.

One of the obstacles to addressing the cotton issue is that it is difficult to negotiate agricultural subsidies country by country, and it is nearly impossible to reduce payments for one commodity without also reducing payments for other commodities (Townsend 2003).

### National-Level Factors in West African Countries

Because farming is a high-risk investment, governments need to be able to provide safety nets for their farmers when events such as crop failure, unpredictable weather, volatile markets, or related situations arise. Developing countries' ability to provide such support is limited by agricultural marketing reforms that liberalized markets by reducing or eliminating subsidies on agricultural inputs like fertilizers and credit.



Another national-level factor at play in the West African cotton industry is the colonial legacy of a monopolistic, parastatal ginning and marketing system, which generates low revenue for cotton farmers. The system was originally designed to provide a fully integrated supply and marketing chain and provide for vital support services, such as research, extension, and infrastructure. At the behest of the World Bank and the IMF, a number of West African countries undertook reforms of the parastatal regimes, but the outcomes to date have been mixed. Now the system is sometimes seen as failing to serve the best interests of farmers and failing to provide competitive markets for their cotton production (Kherallah et al. 2002).

## **Stakeholders**

### West African Producers and Governments

In the crop year 2002, the United States government's cotton subsidies totaled US\$3.4 billion. This figure is nearly twice the total U.S. foreign aid given to Sub-Saharan Africa, and it is more than the combined GDP of the main cotton-producing countries in the region: Benin, Burkina Faso, and Chad (Oxfam 2004, 5). The losses these and other African countries incur owing to U.S. cotton subsidies undermine the aid that they receive. For example, in 2002 Burkina Faso received US\$10 million in U.S. aid and Chad received US\$5.7 million, but each country lost nearly US\$13.7 million in export earnings. Togo received US\$4 million in U.S. aid, but lost almost twice that much in export earnings (Oxfam 2004). These losses in export revenue due to U.S. cotton subsidies also affect the ability of indebted countries to repay their debts. In 2002 the revenue losses for Benin, Burkina Faso, Chad, and Mali equaled between 21 and 33 percent of their total debt service payments.

In response to these kinds of losses, these same four countries led a West African initiative calling for an end to U.S. subsidies at Cancún in 2003. The ministers from these countries insisted that they were not asking for special treatment, but rather for wealthy countries to play by the same fair-trade rules they impose on others—not just the ones that operate in their favor. The outcome of this West African initiative, also known as the C-4 or cotton sectoral initiative, came to be seen as a litmus test of how far wealthy WTO members were prepared to go to put the Doha Round's

development principles into practice. When the talks at Cancún ended, cotton was considered by many to be the main issue over which they unraveled (Williams 2003).

The U.S. proposal at Cancún was rejected by the EU, Japan, and developing countries on the grounds that the export subsidies it would eliminate were not used extensively by the United States; the lower tariffs it called for would hurt developing countries; and the production subsidies it would reduce would not affect the fixed payments that provide U.S. growers with approximately one-third of their total support. Likewise, the United States and the developing countries found the EU's proposal unacceptable, arguing that it would not reduce total support for agriculture and would result in only modest reductions in direct support to production and trade (Townsend 2003).

West African governments have an important stake in what happens regarding subsidies as well. For some countries where cotton is the major agricultural export commodity, their decision to participate in the WTO is significantly linked to how decisions at the WTO facilitate sustainable cotton production and profitable participation in international trade. What is more, while these governments are already burdened with debt payments that make up a substantial percentage of their GDP, they are faced with the additional strain of supporting farmers unable to get a good price for their cotton owing to overproduction made possible by subsidies in the West. In 2001 the governments of Benin and Mali spent US\$20 million and US\$14 million respectively averting a collapse of their cotton sectors by putting a price floor under the cotton market. IMF structural adjustment programs further reduce the leverage governments have to deal with the cotton situation. In 2002 the IMF would not allow the Beninese government to provide subsidies to its farmers, saying that doing so would breach fiscal deficit reduction targets. In Mali the World Bank required the government to reduce its producer price as a condition for adjustment loans (Oxfam 2004).

### The U.S. Government and Producers

According to the Office of the U.S. Trade Representative (USTR), U.S. farm programs do not distort trade, cause low cotton prices, or hurt

foreign growers. To support its case, the USTR points out that cotton prices actually increased during the two years following the 2002 Farm Bill and that U.S. cotton production and consumption have remained stable and even declined in recent years. Farmers are responding to market signals, as evidenced by the fact that they change cotton acreage from year to year, as farmers in the rest of the world do, and they base planting decisions in the spring on price projections for the fall.

The United States, which is the largest retail market for cotton, and the EU, which is the largest import market for textiles, assert that as net importers of cotton they are both helping to sustain the world cotton market. Additionally, U.S. industry and government contribute approximately US\$60 million per year in domestic and international cotton market development efforts. These efforts, which began in the 1950s, may boost world demand for cotton by more than subsidies boost U.S. production [Townsend 2003].

### The WTO

The WTO has a great deal at stake in the outcome of cotton subsidy disputes. A report by Oxfam argues that cotton is a litmus test of whether or not the WTO—and trade itself—can in fact serve the interests of less powerful countries and poor people. If the WTO is to prove that it is capable of creating opportunities and removing distortions in global trade, it must be able to show effective leadership in the cotton sector. According to Mali's trade minister, Choquel Maiga, "The credibility of the world trading system depends on resolving the cotton problem" [quoted in Williams 2003, 21]. Cross (2006, 188) states, "It cannot be assumed that developing countries will continue to participate in a WTO that is perceived to be inequitable."

### Middle-Income Cotton-Producing Countries

If the United States were to reduce or eliminate its subsidies, Brazil would arguably gain the most in terms of increased exports (Pan et al. 2005). Efficiency, higher yields, and scale of production position the country to expand its role in markets where subsidized U.S. cotton dominates. With effective crop management and advances in agricultural technology, Brazil has gone from being a net

cotton importer to a net cotton exporter in less than a decade, recently overtaking Turkey and Uzbekistan to become the world's fifth-largest cotton producer. Most of the growth in cotton production has occurred at large plantations in the central west region as well as in the northeast, where cotton acreage has doubled every year since 2002 and is now expanding faster than acreage of soybeans, Brazil's leading agricultural export (Benson 2004). In 2004 the Brazilian Association of Cotton Producers projected that without U.S. cotton subsidies, the country could double its cotton production in just two years. Brazil's potential to become a bigger cotton exporter is boosted not only by favorable technology and infrastructure, but also by the estimated 200 million acres available for planting (Benson 2004).

## **Policy Options**

### Hasten Elimination of Step 2 and Export Subsidies and Reform Other Subsidies

Aside from eliminating Step 2 subsidies, the United States has made no change in its marketing loan or countercyclical programs, which were named by the WTO panel as two of the three subsidies causing significant price suppression. The current support structure for U.S. cotton farmers is guaranteed by the current U.S. Farm Bill through August 2007. The current administration has indicated its intent to work with Congress to reduce cotton subsidies, and pressure to do so has increased owing to the rising cost of support, requirements of global agreements, and the rising levels of global awareness and criticism of the impact of subsidies on farmers in developing countries. A poll by the Program on International Policy Attitudes (PIPA) determined that "public attitudes on agricultural subsidies in the U.S. are very much at odds with the U.S. policies" (PIPA, cited in Heinisch 2006, 269). A majority (77 percent) of people polled favored subsidies for small farmers but opposed them (65 percent) for large farmers. The report concludes that "the scope of subsidies the public supports is so much narrower than is currently provided that, if the public's preferences were followed, this would largely remove the current obstacle in trade negotiations" (PIPA, cited in Heinisch 2006, 269).

### Retribution against the United States

Brazil's successful case against the United States in the WTO may be signaling a broader shift within the WTO away from a system dominated by OECD countries toward a system that is increasingly influenced by middle-income countries (Cross 2006). Because of a number of political and economic factors, least-developed countries (LDCs) are not positioned to confront wealthy countries in the way that Brazil has been able to with its stronger economy. As Brazil's foreign minister Celso Amorim has stated, however, there may be a new "multipolar" dynamic at work within the WTO. An important question to consider is whether such a shift in power dynamics can work to the advantage of LDCs, whether or not their interests in a particular situation coincide with those of stronger middle-income countries.

### An Agreement on an International System of Cotton Supply Management

Suppan (2006) lists an international agreement on cotton supply management as an important option for achieving stable and remunerative prices. The lack of any international supply or production management mechanism for cotton will continue to result in structural oversupply and low prices. Low prices encourage farmers to boost production at any cost, resulting in environmentally unsustainable methods. The Agreement on Agriculture does not adequately address this cycle of structural oversupply, depressed prices, and environmentally unsustainable increases in cotton exports (Suppan 2006).

### Diversify Production

Interviews with farmers in the "Cotton 4" countries have revealed that many would prefer to replace cotton with other crops, but this option is not realistic because no other cash crops have the infrastructure that has been developed around the cotton sector. Additionally, the opportunities for growth that globalization promises have yet to be seen in these countries, as their economies are considered to have little to offer private investors (Decalo and Boudon 1997 cited in Heinisch 2006). The Cotton 4 countries have invested heavily in cotton to bring them out of poverty and keep their economies stable, and the geographic location of the Sahel limits the kinds of crops that can be grown.

### **Assignment**

Your assignment is to prepare cotton subsidy recommendations for the next U.S. farm bill that would be acceptable to all stakeholder groups. Discuss policy issues regarding support for and resistance to the recommendations, justify these recommendations, and assess the consequences for stakeholder groups.

### **Additional Readings**

Caritas-CIDSE [Caritas Internationalis and International Cooperation for Development and Solidarity]. 2004. *Unfair trade and cotton: Global challenges, Local challenges*. <http://www.cidse.org/docs/200410271206234615.pdf>.

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